

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

June 16, 2011

CALL TO ORDER

The meeting was called to order at 11:27 a.m. by Committee Chair Richard Conlin, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) *Richard Conlin, Snohomish County Executive*

Vice Chair

(A) *Joe Marine, City of Mukilteo Mayor*

Committee Members

(P) *Fred Butler, Issaquah Deputy Council President*

(P) *Dave Enslow, Sumner Mayor*

(P) *Claudia Thomas, Lakewood Councilmember*

(A) *Paul Wiesner, Citizen Oversight Panel Chair*

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was present at roll call.

REPORT OF THE CHAIR

Committee Chair Conlin noted that COP member Stuart Scheuerman was present at today's Committee meeting in place of COP Chair Paul Weisner.

BUSINESS ITEMS

Minutes of the March 24, 2011 Audit and Reporting Committee Meeting

It was moved by Boardmember Butler, seconded by Chair Conlin, and carried by unanimous vote that the minutes of the March 24, 2011 Audit and Reporting Committee meeting be approved as presented.

FINANCIAL REPORTING

1st Quarter Asset Liability Management Report

Jim Block, Investment Administrator, noted that there were no changes in the stoplight indicators for the 1st Quarter. The Federal Funds rate continues to float between zero and 25 basis points. There are lower yields in the short-term investments. The average yield on total cash and investment holdings increased from 1.09% to 1.1%. The state investment pool was down three basis points from the end of last quarter and the King County investment pool was paying the same as last year. \$60 million dollars in open market securities were purchased with an average yield of 83 basis points. Interest earnings are below the budget by \$500,000 through the first quarter; however, interest earnings are on budget when unrealized gains and losses are removed. Performance returns are above the benchmark for the unrestricted and capital replacement portfolios, and all portfolios comply with policy limits and guidelines. Longer-term tax-exempt debt is yielding slightly higher than taxable debt, the current borrowing rate is 4.5%.

1st Quarter Financial Results and Reports

Pete Rogness, Budget Director, reported the first quarter sales and use tax revenues were .2% under budget. In total, revenues for the first quarter are 1% over budget due to other positive variances. Fare revenues are under budget by \$1.9 million, which is consistent with ridership decreases. Local and state grant contributions are below budget by \$1.9 million because use of regional mobility grants was anticipated for the first quarter of 2011. The bus purchase was accelerated so grant funds were used in the fourth quarter of 2010. Federal grants are over budget by \$6.3 million because light rail vehicle purchases anticipated for later in the year were also accelerated to the first quarter.

Total operations for the first quarter are at 94% of the year to date budget. Sounder, Regional Express and Central Link were all around 95% of the year to date budget; Tacoma Link was at 77% of the year to date budget. Sounder fuel costs and BNSF payments are above budget. Ridership is below last year by 1% and below budget by 3%. Regional Express was at 92% of the budget; the purchased transportation budget was underspent even though fuel costs within that budget are above budget. Ridership is higher than last year by 6.5%, but below the budget forecast by 6%. Central Link was at 90% of the year to date budget; materials and supplies for fare vending were over budget, insurance and security costs were below budget. Tacoma Link was at 77% of its year to date budget; security costs and discretionary maintenance were underspent in the first quarter 2011. All departments are within the three-month budget forecast for staff costs; vacancies are at 10.9%.

Capital Programs: Regional Express spent 57% of its year to date budget. Construction savings for Mountlake Terrace are anticipated and I-90 Stage 2 is below budget and within schedule. Three projects managed by other entities are below budget; SR 522 Bothell project, the Rainier Avenue arterial improvements, and the 85th corridor improvements in Kirkland. The Sounder program was at 92% of its year to date capital budget. The largest variance is due to the D to M Street project schedule delay that caused the capital budget and right-of-way budget to be underspent. The Central Link program was at 79% of the year to date budget. University Link was the largest expenditure; at 85% of the budget. North Link is at 42% of the year to date budget due to property acquisitions that have not taken place yet. East Link is at 62% of the budget; the budget assumed final design in the fourth quarter but because of schedule delays the agency administration phase for staff costs and the preliminary engineering phase are underspent.

AUDITS

ORCA 2010 Financial Statements and Audit

Kelly Priestly, Controller, noted that the statements are for the joint venture of seven agencies participating in the ORCA program for fare payment. Sound Transit is the fiscal agent, manages the cash accounts, and provides accounting services for the agencies to pay their share. Sound Transit's share of the joint venture is included in the financial statements.

Review of the 2010 Audited financial statements

Ms. Priestly noted that the statements cover the full year. Lacy Ferguson, Accounting Manager, reported that the annual audit report will be modified to increase comparability to other transit agencies, align reports with federal and state reporting requirements, and highlight Sound Transit as an operating agency. The annual report will be available at the end of July.

The financial statements include changes to the operating expense section to align with other transit agency reporting. Operating grants are now reported as operating revenue instead of

capital contributions. The operations and maintenance expense line has been broken into National Transit Database (NTD) categories of vehicle operations, vehicle maintenance and non-vehicle maintenance. The operating expense section has been changed to remove the non-operating expense line and add a line for fare and regional planning. Non-operating expenses include property management, insurance reserves, and start-up costs. The statements include restated numbers to be in conformance with the new format.

The financial highlights include the impact of opening Central Link in July 2009 and the opening of Airport Link in December 2009. 2010 is the first year with 12 months of revenue and costs. Operating revenues are up 22.9%, the most significant increase was Central Link which corresponds to the additional service months and ridership growth. ST2 enhancements have increased ridership on ST Express. Sounder revenue and ridership are slightly down. Passenger fare growth is 24.9%, boardings are up 19.2%, and average fare per boarding is up 4.8%. Sounder was negatively impacted by a ridership decrease and fare change that resulted in decreases to the average fare per boarding. The ORCA program has provided usage data for Sounder that affected the pricing of business accounts. Revenue pricing is now based on the ORCA data. Vehicle operations cost went up 9.5%, vehicle maintenance went up 2.8%. Vehicle maintenance will increase as the Central Link system ages. Non-vehicle maintenance increased by 29.7% because of a significant expansion in transit facilities. There were some operator fee increases, as well as a full year of fare equipment for light rail and higher share of the downtown Seattle transit tunnel costs.

General and administrative costs increased by 38.9%. Salaries and benefits were comparable to the prior year, the increase was due to professional services to support the claim resolution process necessary for project close out. Fare and regional planning decreased by \$2.8 million. Impairments or non-capitalizable costs were \$9.7 million, including a design change for the pedestrian bridge for the Montlake Triangle project to meet needs of the SR 520 project and \$6.7 million in costs for Beacon Hill voids. Capital assets were up 9.8%; major items include University Link, Sounder easements, land acquisitions for North Link, Tacoma to Lakewood Track and Signal work, fleet expansions for ST2 and the Mountlake Terrace Freeway Station.

The balance sheet position remains strong. Sound Transit has \$1.1 billion in assets compared to \$228.4 million in liabilities. The net asset position is \$4 billion. Restricted assets, or amounts committed to contracts, total \$91.1 million, the unrestricted assets are \$892 million. Operating expenses are increasing in line with revenues and service growth.

Presentation of the 2010 audit results

Tom Evert and Tara Crawford from KPMG reviewed the audit of the financial statements. The audit showed an unqualified or clean opinion of the financial statements. There were no material weaknesses in internal control. The A133 audit of federal grants had no findings. The subarea and NTD audit reports are still in progress.

Mr. Evert reported that the team that participated in the audit included an IT subject matter expert who looked at general controls, a consulting actuary for the owner-controlled insurance, and team members who look at Sound Transit's portfolio to ensure the pricing is assigned correctly and reasonably.

The auditors conducted a full audit of the ORCA joint venture and looked at changes in investments. Interest costs that can be capitalized have gone down as projects shift to operations, the split between capitalized interest and interest that appears in the income statement was audited. Construction claims, settlement agreements, and other contractual agreements were reviewed. Current assets have gone up and construction in progress has gone down as projects

are placed into service. Sound Transit maintains a strong balance sheet. Non-operating revenue includes a full year of the ST2 tax increase.

There were no material weakness in internal controls and there were no material errors, irregularities, or illegal acts. Sound Transit's policies have remained consistent. One different item in 2010 was an agreement for a permanent easement for \$41 million on the balance sheet that does not depreciate since it is a permanent item. The overhead allocation process was audited; overhead has been allocated consistently.

The A-133 audit of controls and compliance with federal funds received by the Agency. The audit includes funds received under the American Recovery and Reinvestment Act.

KPMG reviews subarea allocations and NTD reporting. Once the NTD feedback is received by Sound Transit KPMG concludes its audit of that data. A full audit of ORCA was conducted; an unqualified opinion was issued for the audit with no material adjustments. Sound Transit has responded to a management letter.

Boardmember Butler chaired the rest of the meeting.

Internal Audit Update

David Hammond, Internal Audit Director reported on the performance audits authorized by the Audit and Reporting Committee. A request for proposals has been issued for the performance audit. A contract has been signed to perform a third party audit of one of Sound Transit's architecture and engineering firms.

The process for blanket purchase orders was audited and the report recommends the procurement division work closely with the departments that use the purchase orders to ensure invoices are processed consistently. The cash portion of fare revenues received on buses was also audited and there were no problems. The final audit was on free ride coupons. Most of the 60,000 free ride tickets are distributed by transit partners. The audit found good control over the coupons and improvements recommended to the Customer Service Division have been adopted.

NEXT MEETING

September 15, 2011 from 11:30 a.m. to 1:00 p.m. in the Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 12:50 p.m.


Richard Conlin
Audit and Reporting Committee Chair

ATTEST:


Katie Flores
Board Coordinator

APPROVED on December 15, 2011, KWF.